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OFFICE OF
THE TREASURY ATTACHE

UNITED STATES TREASURY DEPARTMENT

AMERICAN CONSULATE GENERAL

SHANGHAI, CHINA

December 10, 1938.

Commissioner of Customs,
(Investigative Unit),
Treasury Department,
Washington, D. C.

Sir:

There are enclosed for the information of the Bureau
and other interested departments, copies of a report
entitled: "Japan's Narcotization Policy in Full Swing in
Shanghai."

JMB

Chen

Respectfully,

R. W. Pearson

For the Treasury Attaché

E.W.J.G

Enc.

Chamberlain ✓
Murchison ✓

cc: Pearson

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Shanghai, November 30, 1938.

JAPAN'S NARCOTIZATION POLICY IN FULL SWING
IN SHANGHAI

For the past few months, the Japanese special service organ of Shanghai has been sending Persian opium into the International Settlement and French Concession from Hongkew for sale by some fourteen secret opium hongs specially permitted by the Japanese authorities to have the privilege of acting as their opium agents. Recently in addition to these fourteen secret hongs in the foreign areas, twenty-two more have been established in the western districts along the extra-Settlement roads in the following terraces: Jen Ho Li (仁和里), Kang Fu Li (康福里), Cheng Hsan Li (成善里) and Hsin Kang Li (新康里) at Chaochietu (超基頭) and Wuchiochang (五角場). Of these twenty-two, twelve are sanctioned by the "Shanghai City Government" and the remaining ten by the "Reformed Government" of Nanking. In this way these two puppet regimes divide the revenue. Daily

protection fees of these shops varies from \$50 to \$100 according to the size of their trade. In addition to the protection fees, revenue of \$1.00 is collected from each tael of opium sold.

Opium sold in these shops is mostly Persian opium as Jabol opium or Manchurian opium can find no market in this part of China owing to its poor quality. Persian opium had been purchased at Persia and imported into Shanghai by the Mitsui Bussan Kaisha, which acts in accordance with the wishes of the Japanese military. A chest of Persian opium is 160 lbs. or 1920 ounces. It is sold by the Mitsui Bussan Kaisha to the Japanese military special service organ at about \$5.00 per ounce, and the latter sells it to the opium hongs at about \$7.00. The opium hongs retail it at about \$9.00. In this way the Japanese military special service organ can make from \$3,000 to \$4,000 per chest. It is estimated by a Formosan opium merchant that the Japanese special service organ sells an average of no

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less than 1,000 chests of Persian opium per month to the opium hongs in Shanghai and its environs, including Nanking, Chenkiang, Wusih, Changchow, Changshu, Soochow, Kashin, Sungking, Huchow and Hangchow.

Persian opium imported into Shanghai is stored in a secret godown in Hongkew, the location of which is not known to anybody outside. Any opium merchant who wants to buy opium is required to pay the price in advance to the Bank of Taiwan and secure a receipt for same. He then presents the receipt to the authorities in charge of opium at the special service organ in Hongkew. Upon receipt of the bank credit, the special service organ delivers the amount of opium purchased to any part of the city as specified by the purchaser. The Japanese military usually secretly send the cargo out of Hongkew with military trucks. No purchase of less than twenty chests can be made.

Jehol opium is now used mostly for the manufacture of morphine and heroin in Manchuria, Dairen, Tientsin and Hongkew. Japanese morphine and heroin also find their way into Shanghai in large quantities. In Japan

and Formosa opium is being grown secretly in many of the big sugar and other plantations to supply the raw material for the narcotic industry. Morphine now costs about \$500 per lb. in Japan, to be sold for approximately \$1,500 in Shanghai. For this reason nearly every Japanese coming to this city brings with him at least two pounds of morphine for sale. In this way any Japanese who comes to China can make enough money to cover his traveling and hotel expenses, besides leaving a good balance for himself when he returns home.